Unsustainable Fiscal Deficit

58. SHRI VIJAY J. DARDA : Will the Minister of FINANCE be pleased to state :

(a) whether it is a fact that the present consolidated fiscal deficit of 10 per cent of the GDP is unsustainable;

(b) if so, how far Fiscal responsiblity and Budget Management Act has met its envisaged objectives of bringing down Government borrowing and raising tax revenue; and

(c) whether Government have set any time limit for raising the Below Poverty Line people to comparative level?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO VITHOBA ADSUL) : (a) The combined fiscal deficit of the States and the Centre is 9.3 per cent of GDP for 2002-03 (BE) as compared to 10 per cent in 2001-02 (RE). Budget 2003-04 lays stress on fiscal consolidation for sustained growth by eliminating budgetary drags, expenditure rationalisation and revenue enhancement under a modern tax administration.

(b) It is still too early to evaluate the FRBM Act, 2003 as the monitorable indicators and the three statements mentioned in the Act would be in place after the Rules are framed.

(c) Monitorable targets for Tenth Plan and beyond, as per Tenth Plan document, aim at a reduction of BPL population by 5 percentage points by 2007 and 15 percentage points by 2012.

Opening of Private Banks

59. PROF. M.M. AGARWAL : Will the Minister of FINANCE be pleased to state :

(a) the details of policy being adopted by the Central Government for opening private/foreign bank in the country;

(b) the number of private/foreign banks functioning at present in the country, bank-wise indicating the facilities being provided by these banks to the people of the country; and

(c) the details of comparison of private/foreign banks and Indian Nationalised Banks with regard to the services and facilities being provided to the customer?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO VITHOBA ADSUL) : (a) Reserve Bank of India (RBI) issues guidelines for entery of private sector banks and foreign banks in the country. A gist of guidelines operative as on date in respect of these banks is at Statement (*See* below).

(b) and (c) Presently, 30 Private sector banks and 35 foreign banks are operating in the country. These banks are characterized by diversities in their sizes, organizational patterns, geographical presence and functional specializations. Both the bank groups, in addition to carrying on banking business, are free to offer services/facilities to its customers as permissible for banks to do so under Section 6 of the Banking Regulation Act, 1949 and enshrined in the respective Articles of Association.

Statement

Guidelines on entry of private banks/foreign banks

Reserve Bank of India (RBI) had issued revised guidelines for entry of new banks in the private sector on 3rd January 2001. These guidelines *inter alia* stipulates :—

initial minimum capital of Rs. 200 crore.

a minimum capital adequacy ratio of 10 per cent on a continuous basis from the commencement of its operations.

Licences would be issued by RBI to those who were likely to conform to the best standards of customer service and efficiency and the number of licences to be issued would be restricted to two or three of the best accepatable proposals.

After issuing 'in principle' approval to two applicants, Reserve Bank of India issued a Press Release on January 30, 2002, in terms of which, RBI will consider inviting fresh applications for new banks in the private sector only after three years from that date and after further reviewing the working of the private sector banks. One applicant has already started the bank.

Foreign banks are allowed to operate in India only through branches. The foreign bank desirous of opening maiden branch in India is required

to apply to RBI giving relevant information about its shareholders, financial position, etc. in the prescribed format. The following criteria are applied while considering the application of a foreign bank.

i) Financial soundness of the bank.

ii) International and home country ranking

iii) Rating

iv) International presence.

v) Economic and political relations between the two countries

vi) The bank should be under consolidated supervision of the home country regulators and RBI should be satisfied with the standards of supervision of the home country regulator

vii) The country of incorporation of the bank should not discriminate against Indian banks **(Reciprocity)**

viii) Home country regulator's approval for opening the branch

RBI recommendations made to Government are considered by an Inter-Departmental Committee (IDC) of Government of India. After clearance by Government, approval in-principle is issued to the applicant bank.

Capital Requirement

Foreign banks have to bring in minimum assigned capital of US $ 25 million spread over three branches as follows:

US $ 10 million for the first branch

Additional US $ 10 million for the second branch

Another US $ 5 million for the third branch

Permission to open second and subsequent branch is granted taking into account, *inter alia*, the policy prevailing at that point of time.

The bank has to ensure that the required capital has been brought before commencement of business in India.

The Indian entity is required to maintain minimum capital funds amounting to not less than 9 per cent of capital to risk weighted assets of its Indian operations.